

TRADING INTO ASIA - REALISING THE POTENTIAL

Address by the Hon Gareth Evans QC, Minister for Foreign Affairs, to the Asia Business Connection, Parramatta, 7 February 1996.

I am grateful to Paul Elliott for inviting me back to Parramatta to address the Asia Business Connection. I recall with great pleasure launching this group three and a half years ago. Parramatta is the heart of one of the growth areas leading Australia's business push into Asia, and I am happy to take this occasion to look with you at where we have got to on the trade front, and the crucial issues that remain before us - and for which events on 2 March will have some relevance!

The basic record of performance I can report to you is one of strong, consistent and growing export performance across a variety of sectors; high levels of investment in export-oriented sectors; and rapidly improving levels of activity by Australian firms all over Asia.

It being lunch time, I don't want to choke you with statistics, but let me give you just one set of key figures to make the point. In 1982-83, when the Labor Government came to power, we inherited an economy which exported less than 15 per cent of its GDP. In 1994-95, Australia exported 19 per cent of its GDP. This 4 per cent change might not strike you as being especially significant, but then convert it to dollars : it is just short of 20,000 million dollars. That is national income we would not have had, had we not changed our ways under Labor. It would have meant a near doubling of our current account deficit for this year. It would have meant less revenue (over \$1,000 less every year for every man, woman and child in Australia) to buy the things we want and need. No wonder the then Treasurer responsible for our limp pre-1983 export performance is so reluctant to talk about his record during this campaign.

So trade, far from being an issue off to one side, is more crucial than ever these days to how well we live. Improving our performance even more is a key national goal. I know that what matters to you is the basic business of business: developing the product, finding the market, and winning the contract. At the end of the day this is what being a competitive, export-oriented, clever country is all about. But the government can and does shape the environment in which you operate. And this Government has been determined to make sure that environment is a strong one.

The Government's Trade Policy and Performance

There are five key interrelated areas of activity in which the Government has been working on the trade front, and which all have contributed their part to the export record I have described: the Australian domestic economy; the three dimensions of external trade

diplomacy, namely global, regional, and bilateral; and the area of national export promotion. Let me briefly discuss each in turn.

The Domestic Economy. We inherited from John Howard in 1983 an inward-looking, protectionist economy with double digit inflation and double digit unemployment and high, investment-detering interest rates. It was an economy incapable of meeting the challenges of a competitive global marketplace and sustaining, let alone improving, Australian standards of living. The Labor Government was determined to embrace the challenges of constructing an outward-looking, export-oriented economy. We chose to embark on a fundamental restructuring of the Australian economy, to do the things which many had spoken about in the years before us, but which had been left undone.

The details are by now familiar to you. We floated the dollar, eliminated exchange controls and deregulated the financial system. We launched a sweeping program of microeconomic reform, including industrial restructuring, and labour market, competition and tariff reform. We deregulated areas such as communications and aviation, which has improved productivity and reduced business and consumer costs. Prime Minister Keating's *Working Nation* statement in 1994 put in place further key reforms to improve labour market efficiency.

We are now focusing, in partnership with State and Territory governments, on strengthening competition policy. The National Competition Policy agreed last year involves reforms to extend trade practices legislation further into the economy. For example, arrangements to enable new operators to gain access to infrastructure facilities like electricity grids, rail systems and telephone networks. The benefits for industry will be lower costs of production, coupled with the wider spread of best practice in both the private and public sectors over the next decade. This will help exporters more than others - you are the ones facing the heat internationally where poor domestic competitiveness hurts the most. The Industry Commission has calculated that these reforms have the potential to add 5.5 per cent permanently to Australia's GDP - \$23 billion dollars. This will lower the real costs of doing business in Australia, enhancing our chances of further export success.

More recently, the Prime Minister's *Innovate Australia* statement introduced a range of initiatives in the areas of research and development, innovation, information technology and business finance. These are designed to develop a more innovative culture in Australian industry, and to create an environment where Australia can respond faster to the opportunities of the free trade and investment environment that is spreading across the world.

Mr Howard says that he wants to reform the place even more rapidly: as Mandy Rice-Davies once immortally said in another context, he would say that, wouldn't he! Mr Howard served in a Government which had control of the Senate and a majority of the States for most of its term of office: but if I ask anyone to recall one - just one - meaningful structural reform introduced during that period of our history, I always draw a blank. Always. They did

nothing, and set us nearly a decade behind Structural economic changes of the kind I've described occur only rarely, and only through leadership and vision: before people pocket these achievements and say "so what?", we might all reflect on what we have achieved on the home front through our conscious efforts.

If domestic reform is about working together to get Australia into competitive shape, then trade policy is about working tirelessly to shape the external environment in which Australians trade and invest. Our strategy to achieve this has three strands, each of which reinforces the others. First, a commitment to further strengthening the multilateral trading system as embodied in the World Trade Organisation that succeeded the GATT last year. Second, development of regional trade liberalisation through APEC, the Asia Pacific Economic Cooperation forum. And third, unremitting effort to work with each of our trading partners bilaterally on market access, market development, and promotion.

The Global Agenda. The world does not owe us a living. If Australia wants to ensure its prosperity, it will have to make sure that the rules of world trade work in our favour; if we do not, no one else will do it for us. As a global trading nation, we are dependent on internationally enforceable rules to ensure predictability in trade and binding commitments on market access.

That is why it is critically important that Australia invest the time and effort that it does into the multilateral trade system. The progress seems pretty slow at times, but strengthening the multilateral trading system through the World Trade Organization remains of fundamental importance to Australia. Over the eight years of the Uruguay Round negotiations which led to the establishment of the WTO, we built new coalitions to leverage our position as a middle power in order to gain the best possible outcome for Australia. We convened the Cairns Group coalition of agricultural free trading nations, which was successful in getting agriculture included in a substantial way into the international trade rules system and the final package of outcomes. That achievement, which took years of very tough lobbying, was an historic outcome, both for Australian primary producers and the national economy as a whole.

The outcome of the Uruguay Round as a whole has been outstanding. The Industry Commission has estimated that exports will increase by \$5.2 billion (1992) dollars by the year 2002 as the Round is fully implemented. Of that, \$3 billion will be industrial exports, and \$1 billion will be agricultural products. And GDP will increase by \$4.4 billion (1992) dollars. That is real money in anyone's terms.

We're not proposing, however, to rest simply on our laurels so far as global trade policy is concerned. It is time to start thinking about the next global round, and the time to do so will be at the inaugural Ministerial Review Conference of the World Trade Organisation, which will be hosted by Singapore in December. The Singapore meeting should not only take decisions and launch preparatory work to build on the Uruguay Round, including newer

areas such as trade and the environment, investment and competition policy, but it should set a course for the next ministerial conference, in 1998, to launch a further broad-based negotiations process from 1999

The Regional Agenda. Side by side with this global effort, Australia under Labor has been centrally involved in efforts to build regional economic cooperation and achieve trade liberalisation in the Asia Pacific region, and last year embarked on the long-haul enterprise of developing similar cooperative strategies for the Indian Ocean region. Through APEC, which I hope you will remember was established in 1989 as an Australian initiative, Australia has helped entrench a key regional structure for enhancing the development of the Asia Pacific region, and our prosperity within it.

When Australians last voted at a federal election, Asia Pacific regional leaders had never met together to discuss common regional concerns. Thanks to the initiative of Prime Minister Keating, APEC Leaders meetings have become fixed items on the regional calendar. Three such meetings have been held (Seattle, Bogor and Osaka), which have entirely reshaped the economic agenda for the region. At the meeting in Bogor, Indonesia, in 1994, APEC leaders forged the agreement - which only a few years previously would have been unimaginable - to achieve free and open trade and investment in the region by 2010 (for the developed economies) and 2020 (for the developing economies). When that vision is realised, our estimate is that Australia's income will be as a result \$40 billion a year greater, and there'll be another 500,000 Australian jobs.

APEC has managed to by-pass the legalistic bargaining familiar at the WTO level, in favour of concerted movement, spearheaded by political commitments by the Leaders at their meetings. The Action Agenda agreed at the Osaka APEC Leaders Meeting last November showed a degree of resolve and leadership that even the G7 group of leading industrialised nations have not been able to achieve. The next step is for APEC members to prepare individual action plans which will set out in detail how they will achieve the free trade and investment goal. These plans will be tabled at the next meeting, to be held in Subic Bay, in the Philippines, and will go into effect from 1997. The devil, as always, will be in the detail, but we genuinely believe that by 1997 we will be making some real and visible progress.

APEC members are also working on specific initiatives to facilitate trade and investment in the region, such as work on adopting international product standards and simplifying and harmonising customs procedures. The idea is to get rid of the cumbersome procedures that add to business uncertainties, risks and costs.

The Bilateral Agenda. The Opposition regularly criticises the Government for what they call our neglect of Australia's bilateral trade relations. The fact is Australia already has very good bilateral trade ties with *all* the countries of any importance to us. The claim that we have neglected bilateral diplomacy is a furphy, concocted for the sake of having something to say. I'm still looking for clues as to what the Coalition, if it came into government, thinks it might

actually do any differently in its bilateral trade relations: the truth is that none of their magisterial external policy team - Messrs Howard, Fischer or Downer - have the faintest idea. I'll come back to the Opposition's views on bilateralism before I conclude.

Our bilateral relations are in good shape around the world, especially where it matters most, in our own region. Under no previous Government have ministers developed such extensive ties with their counterparts and key players in Asia. We took the deliberate decision that if we wanted Australians to think differently about Asia, we had to take the lead and establish the dialogue and open the doorways to practical cooperation. We established new ministerial forums for very high level dialogue with key partners such as Indonesia and PNG. We are the only country with which Japan maintains an active Ministerial Council dialogue. Many of the issues addressed in these forums are directly related to market access issues.

There is an intense program of Ministerial missions to key markets, many of which are accompanied by large business groups: last September's Australia China Forum in Shanghai, opened by Senator McMullan, generated about \$46 million of business. We have initiated a series of integrated country promotions in Japan, Korea, Indonesia and, this year, in India. The Indonesia promotion generated about \$410 million in new business. Our Embassies spend about 50 per cent of their resources on in-country trade-related work, in addition to Austrade's development and promotion activities.

That effort is supported by programs within Australia such as the National Trade and Investment Outlook Conference (or NTIOC) and the Market Australia campaign. NTIOC, which my Department runs each year, has become the premier event of its kind in the Asia Pacific. The 1994 conference generated, on very conservative estimates, \$135 million in business. I am sure we'll see an even bigger number for last year's event when all the figures come in. But the larger benefit is immeasurable - the networking and perceptions that form the invisible framework of our future success in Asia. Perceptions are what Market Australia is about: its "Inventive Australia" campaign is using sophisticated PR techniques to project an up-dated image in key East Asian markets of Australia as innovative, effective and technologically advanced.

Trade Promotion. Trade promotion and development activity is an important adjunct to trade diplomacy. While trade promotion is about creating opportunities through improved market access for Australian exporters, trade promotion and development is about assisting exporting firms to capture those opportunities. Austrade, established by Labor in 1986, is the agency - as you all probably know - charged with providing this export assistance. Last year Austrade assisted exporters to achieve export sales of over \$4.7 billion in 1994-95, which represented an earnings to operating cost ratio of 28:1.

In 1995 Austrade directly assisted 7,000 small and medium enterprises (SMEs). Principal assistance programs include the Export Market Development Grant (EMDG) scheme, which provides grants of up to \$200,000 to assist firms into export markets, and the International

Trade Enhancement Scheme (ITES), which involves assistance of up to \$5 million in low-interest loans for export projects. Finally, in December last year, as part of the Prime Minister's *Innovate Australia* statement, the Government announced an additional \$8.5 million to develop Austrade's Tradeblazer project, a world class trade development and marketing information system delivered through the Internet to assist SMEs get into foreign markets.

The Labor Scorecard. What's the scoring rate after all this activity on all these fronts after thirteen years of Labor? In a nutshell we have a great deal to be proud of. Just last month, my colleague, Trade Minister Bob McMullan, released a Trade Outlook Statement which tells the story in the following terms.

- Australia has stepped on to a new and higher growth path for exports, and the outlook is for the maintenance of an export rate approximately double that achieved in the 1970s and 1980s. As a result, we now have the ability to grow the economy faster than in previous decades. My Department conservatively estimates that the economy can now grow at a full percentage point faster than was previously possible because of our improved export performance since 1983. And that extra percentage point will be crucial in meeting our domestic unemployment target: no more than 5 per cent of the labour force by 2000.
- The export growth path is a long-term trend, due to the more open and competitive economy we have today as a result of Government decisions, and as a result of Australian firms responding to the new challenges and opportunities. Recent strong export performance is not a temporary flash in the pan. Present indications are that our exports to GDP in 2000/2001 will be around 23 per cent, compared with around 19 per cent in 1994/95, and only 15 per cent in 1982/83.
- Apart from the overall figures, all our regional efforts have obviously been bearing fruit. Australia's total merchandise exports to Asia have grown at a trend rate of 13 per cent per annum during the last decade, around double the rates of growth into Europe and the Americas. Last year, Australia's exports to Asia amounted to two-thirds of Australia's merchandise exports. That overall growth figure is impressive enough. But it is the diversification of our export markets, and the increased technological sophistication of what we sell into them, that is the key to our long-term success. Over the past two decades the proportion of Australia's merchandise exports to non-Japan Asia more than doubled from 18 per cent to 40 per cent.
- One of the arguments that we continually hear from the Opposition is that we are gilding the lily on the regional trade front, and that in fact our share of the market in East Asia has been declining. But this criticism is misconceived. While our overall East Asian market share is a slightly smaller portion of the East Asian cake in relative terms than it used to be, this is a statistical quirk based on the fact that there has been

explosive growth in that market in areas where we have traditionally exported less, and less growth in the areas where we have traditionally exported more. The main point is that our share of the East Asian market is bigger in absolute terms than it has ever been, and so is worth more to our economy. In the things we actually export, our sectoral shares have increased: energy up 15 per cent between 1989 and 1993; manufactures up 13 per cent; agricultural products up 4 per cent; and some minerals up 2 per cent.

- The compositional change in our exports has been as interesting and important as the directional change. The past decade has seen a sustained shift towards higher value-adding, away from our traditional rural and resources exports towards manufacturing and services. In ten years, manufactures and services as a share of total exports have risen from less than one third to almost half. The traditional sectors will remain crucially important for many years to come, but our future depends on climbing up the technology ladder towards higher technology products and services.

- Our exports of manufactures have recorded annual trend growth of 15 per cent over the past decade, and are now valued at over \$22 billion. More than two-thirds of these manufactured exports are elaborately transformed manufactures. ETM exports, which range from high-speed catamarans to specialised telecommunications equipment, are growing even faster than manufactures as a whole - 17 per cent per annum during the last decade.

- Services exports are a success story, too. Representing nearly a quarter of total exports, they are worth more than the combined value of coal, gold, wool and beef. The strongest performers have been travel and education services, both just pipping ETMs for the highest growth-rate - 18 per cent.

- The growing success of value-added exports has built Australia a more diversified export base. That allows us to earn more income in the rapidly changing markets of Asia. But diversification brings a further, long term benefit: we have spread our international risks because we are now less vulnerable to the impact of declining terms of trade in commodities. That is a major strategic gain for the Australian economy.

Opposition Trade Policy

Let me finally say something about the Opposition's trade policy released by Mr Fischer last month. To the extent that it emphasises, as we have been for years, that trade policy has to involve efforts on five different fronts - domestic, bilateral, regional, global and promotional - we have absolutely no quarrel with it. But to the extent that the policy says anything new - in particular that the Opposition will engage in a major shake-up of Austrade, appoint an

"APEC Ambassador", and place a massive new emphasis on bilateral access negotiations - then it is simply wrong-headed, for reasons I will spell out. In short - as so often with Opposition policy in this campaign - what's good isn't new, and what's new isn't good.

Austrade. Mr Fischer's proposed "shake up" of Austrade, announced in its trade policy statement on 12 January 1996, will amount to nothing more than a price hike for that organisation's small business clients. The concept of "user pays" in respect of Austrade - based, particularly on "commercially competitive" rates, as distinct from cost-recovery - will hit the very small businesses which the Opposition purports to represent. Austrade provides services to 8,000 small and medium enterprise clients.

Under the Government's pricing policy, services to new/emerging exporters are generally free; to developing exporters are generally heavily subsidised; and to established exporters full fee, but on only a cost-recovery basis. Going to a "commercially competitive" basis would involve around a tripling of average fees. The current average subsidy is around 50 per cent.

APEC Ambassador. When you have not got any new ideas, but want to make a splash it's a time honoured response to set up a new position with a fancy new title and put off until later thinking about what that person or body might actually do. That's what this proposal amounts to. Currently, APEC works through a process of a multitude of focused, effective working groups and committees, holding hundreds of meetings, which report to a standing group of so-called Senior Officials, who pull together all the threads for Ministers and Leaders. Ministers and Leaders then meet towards the end of the year, having guided the process throughout the year.

What an "Ambassador" would do in the midst of all this is not clear to me - other than racking up the frequent flyer points. Would he or she be an "Ambassador" to a group of senior officials? What would be the point when our Senior Official is, effectively, our "Ambassador"? I distinguish that criticism from the practice of employing eminent individuals to push the intellectual boundaries outwards - that is what APEC did with the Eminent Persons Group which ran for a limited period from 1993 to 1995, and which helped drive the process of APEC's development I described earlier. Maybe that is what Mr Fischer had in mind. But it would help us, here as elsewhere, if he gave us a little more help in penetrating that labyrinth.

Bilateralism. Here we strike the most dangerous and potentially damaging part of Mr Fischer's policy. Mr Fischer has proclaimed his intention to devote more resources to negotiating away specific trade barriers on a bilateral basis. Fair enough, so far as it goes: we'd like to be able to devote more resources to almost everything the Government is doing in the trade area, and indeed across the whole external policy spectrum. However, he couples this with a zero-sum view that he is not inclined "to support moves for another round of (multilateral) negotiations at this time...it is more important that resources be devoted to

negotiating away specific trade barriers." (BRW, 19/1/1996). This is naive and dangerous dogma. No industry stands to gain more from a new global multilateral round of trade negotiations than the rural sector, and no initiative could do more for farmers in 1996 than starting the process for a new multilateral round.

Let me spell out three other reasons why the Opposition's infatuation with bilateralism at the expense of multilateralism is mis-conceived.

First, multilateralism by its very nature is likely to deliver more. Multilateralism should be seen as bilateralism writ large - it is, in effect, an enormous number of bilateral negotiations conducted simultaneously. The WTO brings 115 countries together who can horsetrade across the range of their interests and access targets. In other words, it is a way whereby country A can offer country B something of what B wants because it is getting something of what it wants from country C, who is happy because it is getting something of what it wants from country A...and so on. The proof of this is in the pudding. Mr Fischer's National and Country Party predecessors were largely ineffective, over a period of thirty years, in securing any sort of real reform of international agricultural markets, or better access for Australian produce. It took Labor to do that, through its leadership of the Cairns Group and through the multilateral system. Bilateralism didn't get one grain of rice into Japan, greatly expanded beef into the United States, or one dollar off the level of US and European agricultural subsidies. The difference between multilateralism and bilateralism is the difference between getting one product line into one market at a time, or thousands of product lines into scores of markets at the same time.

Secondly, there are trade law problems with Mr Fischer's concept. What does he actually mean by "bilateral strategies"? Does he mean market access for Australia under special, and discriminatory, arrangements? If he does, Australia would need to negotiate formal free trade areas with all of our priority markets - an expensive, high-resource, low-yield effort. This is because tight rules - which protect our interests - govern bilateral trade deals. Under the WTO agreement, the deals must be comprehensive and cover substantially all trade between the partners if they are to discriminate against the rest of the world. You simply cannot do special, one-off deals unless you go for a free trade agreement across everything. The alternative is to extend the deal to every signatory under the Most-Favoured Nation rule. Mr Fischer appears confused on this point, not an unfamiliar condition.

Thirdly, there is the problem, which Mr Fischer seems to have overlooked or misunderstood, of "negotiating coin". To cut a deal, you have to deal. If you do it on a broad front with a group of countries, you maximise what you get in return. A good deal of the time, you can ride on other's deals, giving little away. If you try country-by-country on a one-on-one basis, you inevitably get less for what you give away. No priority market will ever have everything you want, but you will still need to put something substantial on the table to get something of what you want. So, what prevailing tariffs and other arrangements would Mr Fischer be prepared to give away in return for greater access into one other market? Following from

what I said earlier about the legal problems involved, it follows that Mr Fischer would have to be willing to lower our TCF and automotive tariffs - extending that access to all traders all around the world - for very minor returns - let's say, for increased access to the Philippines chocolate market or the Sri Lankan sunflower seed market. Either that, or he is proposing to waste scarce negotiating resources quarantining whatever "coin" we give away to our bilateral partners from full global access through the technique of negotiating FTAs.

We don't rule out bilateral deals. We in fact have a very good one with New Zealand. What we don't do is get carried away with the dogma of bilateralism for the sake of saying something "new". Bilateralism is not new: it is tried and true and a very sensible technique in certain circumstances, and one that we do keep grinding away at. The players who have been around long enough know how to keep it in perspective.

Certainly we won't relent in our bilateral market access work which I described earlier. Why would we, given the specific benefits we have achieved in particular instances : beef access into Canada in 1996 at a level of 42,000 tonnes; elimination of the 10 per cent tariffs on Mexican wool tops and sugar harvesting equipment; reduction of the effective 30 per cent tariff to 10 per cent for Malaysia pesticide chemicals; the opening of the Malaysian liquid milk market; the reduction of the 50 per cent tariff to 10 per cent for Philippines chocolate confectionary, and 30 per cent to 10 per cent for Philippines pet food. The point, however, is to overlay this effort with the big global and regional plays where the real gains are to be found.

What we're about, across the board, in trade policy, as everywhere else, is real gains. We've delivered them in the past, and have a much clearer idea of how to deliver them in the future than our opponents on 2 March. I'm sure that this message won't be lost on an audience as perceptive and knowledgeable, and with as sound a record of achievement behind it, as this one.